WAR ASSETS ADMINISTRATION
REGION 5
CHICAGO, ILLINOIS

OPERATIONS DIGEST

January 15, 1948

Prepared
by

Organization and Methods Division
Statistics Branch

Table 1
Operating Statement
Consumer & Capital Goods
January-December 1947

	End-of-Month Inventory $	Acquisitions $	Disposals $	Recovery Rate %
January	308,887,000	2,627,000	37,438,000	26
February	318,538,000	29,167,000	19,515,000	21
March	308,477,000	12,362,000	22,417,000	22
April	306,313,000	20,623,000	22,786,000	18
May	284,432,000	-1,145,000	20,732,000	14
June	274,975,000	23,954,000	33,407,000	11
July	177,716,000	-70,024,000	27,234,000	14
August	242,052,000	83,660,000	19,320,000	16
September	245,071,000	23,645,000	20,622,000	16
October	239,436,000	12,089,000	17,725,000	15
November	216,706,000	-2,137,000	20,582,000	11
December	186,889,000	-1,153,000	28,669,000	16

Inventories

In December, for the second straight month, Region V recorded negative net acquisitions. As in November, this negative acquisition figure resulted primarily from an elimination of "water" or duplicate listings of property from the inventory records. (In the past 3 months the "water" eliminated from inventory records has amounted to $67 million.) The major transactions affecting the inventory account in December were:

(1) Additions to inventory: (a) new declarations of $12 million, (b) a net transfer of $5 million from the suspense inventory account to the IBM inventory account.

(2) Deductions from inventory: (a) an elimination of $14 million of duplicate listings of property from the inventory records made in the process of reducing the "98" account, (b) a transfer of $3 million of inventory in warehouses #7 and #12 to the Minneapolis Region, (c) owning-agency withdrawals of $1 million.

Disposals

Gross disposals in December ($37 million) were the highest since last January. The largest transfer of property to other government agencies of any month in the region's experience ($18 million, net) contributed most to this high level of December disposals. On a commodity basis, steam equipment (troop-sleeping cars) and metal-working equipment made up 90% of the dollar value of the property transferred. A record level of cancellations and adjustments of previous months' sales ($8 million) reduced December's net disposals to $29 million.

Recovery Rate

The regional recovery rate in December was 16% which indicates no substantial change from the general level of recovery rate prevailing since last April. However, machine-tools, the region's largest single class of inventory, realized in December its highest recovery rate (21%) since last May.

Target

The high level of December disposals, together with a relatively low December disposal-target, enabled the region to come closer to meeting its target than in any previous month. Net disposals ($29 million) fell only $1 million short of the $30 million disposal-target.

Offerings

Inventory offered for sale in December ($23 million) was 44% below the previous monthly low in November. This decline has apparently carried over into January since on January 1 the region had only $9 million of inventory definitely scheduled for sale in the current month. From these figures, it may be presumed that January will be one of the poorest months from the point of sales in the region's history.

The amount of inventory currently on sale is small primarily because 87% of the regional inventory is unavailable for sale. A detailed breakdown of the status of inventory follows:

(1) $88 million is being "reconciled" by the Office of Stock Control and the Accounting Division. Final reconciliation will likely show that the region does not have physical property to match about $45 million of this $88 million of unreconciled records.

(2) $39 million is frozen and withheld from sale. Most of this inventory is located at the Dodge plant and Warehouse #21, Gary.

(3) $32 million represents recent disposals that are now being documented. When these disposals have been fully documented, this $32 million will be deducted from the IBM inventory. $25 million of this total consists of JANMAT disposals.

(4) $12 million is being screened by JANMAT representatives for possible withdrawal and inclusion in the armed forces stand-by program.

(5) $12 million is in the process of being programmed by the Office of General Disposal.

(6) $10 million is currently on sale.

(7) $3 million is held by the Customer Service Center but not currently on sale.

(8) $1 million represents inventory withheld from sale pending reinspection by the Inspection Division.

Mailing List

One possible reason for the ineffectiveness of many regional offerings is that certain potentially important buyers do not receive regional sales catalogs. This problem arises from the fact that the regional mailing list has been built mainly from customer requests for catalogs.

WAA is not a retail store and, hence, must depend primarily upon business firms as a market for its property. Over one-half of this business market is concentrated in a relatively few large firms. Thus, in the wholesale and retail field over 50% of all buying is done by firms whose assets exceed $1 million. These firms number less than 1% of all wholesaling and retailing firms. In manufacturing and related industries 75% of all purchases are made by firms with assets exceeding $1 million. These firms number only 2% or 3% of all manufacturing firms. In the city of Chicago there are 1,150 firms whose assets exceed $1 million. Many of these are main offices of some of the country's largest firms; others are branches of multi-million-dollar firms whose main offices are located in other cities.

The regional mailing list contains only 8% of these million-dollar firms whose branch offices are located in Chicago and only 22% of these firms whose home offices are in Chicago. It therefore seems highly advisable that the region take the initiative of adding to its mailing list the remaining 1000 firms who do a big percentage of the total business purchasing in Chicago.

Adding these 1000 firms to the regional mailing-list would increase the number of names on this list by only 4% or 5%, so the effect of this addition in increasing the region's total catalog cost would be slight.

Income & Expense

Table 2

Income & Expense
December 1947

	Millions of $
Total Income	
Capital & Consumer Goods Sales	$1.67
Real Property Sales	1.56
Rents & Interest	0.55
Total	$3.78
Total Expense	
Salaries & Wages	0.84
Rents & Utilities	0.08
Supplies & Materials	0.05
Miscellaneous Contractual Services	0.04
Plant Clearance	0.03
Broker-Dealer Agreements	0.03
Protection & Maintenance of Property	0.03
Reimbursements to Owning Agencies	0.02
Other	0.04
Total	$1.16
Excess of Income over Expense	$2.62

Regional net income declined in December for the second straight month in spite of the fact that December's total expenses were the lowest on record and capital & consumer goods disposals were the highest in the last year. This decline in net income was due to two factors: (1) income from real property sales fell sharply in December as compared with October and November, (2) the

largest part of consumer & capital goods disposals consisted of transfers to other government agencies which involved no transfers of funds. If the capital & consumer goods transferred to government agencies had been sold for their market-value, regional net income would have been increased from $2.6 million to $6.4 million. Steam-equipment sales (mostly troop-sleeping-cars) realized 40% of the total capital & consumers goods income in December.

Complaints

Region V has not done a good job in establishing customer goodwill. Over the last 4 or 5 months the region has received about 1 complaint for every 4 disposals made. The Complaint and Expediting Section has not, however, permitted any great backlog of complaints to accumulate and, on the average, complaints processed per week have roughly equaled complaints received per week. A breakdown of complaints by causes is not available for months past. However, a survey covering the week ending January 9 indicates that the 3 most important causes of customer complaints are: delays in delivering merchandise, delays in processing awards, and delays in processing refunds on sales. In many cases the failure to deliver merchandise can be traced to the fact that the merchandise is not available for sale because of previous sale or owning-agency withdrawal.

Claims

Unsettled customer claims on December 31 numbered 499, this being the first time since the formation of WAA that the region has had fewer than 500 claims. Overpaid customer accounts were also reduced from 750 on November 30 to 675 on December 31.

If Region V continues to receive and settle claims at the average rates of the past 3 months, the Region will have reduced its backlog of unsettled claims on June 30, the target-date for WAA's termination, to less than 1 week's work.

Personnel

Regional personnel on December 31 numbered 2,241, a net reduction of 122 employees as compared with November 30. Total personnel has been cut 48% in the last year and 42% since June 30.

Fifth Operational Program

The Fifth Operational Program, established by the Washington office to cover disposal activities in the months January-March, has the following major objectives:

(1) A completion of inventory reconciliation by March 31. On January 9, the region had $88 million of unreconciled inventory. Most of this ($59 million) was in the hands of the Office of Stock Control. The Accounting Division on January 9 had reduced the suspense-inventory account to $13 million and the "98" account to $16 million.

(2) A substantial increase in inventory offered for sale, especially industrial machinery, hardware, materials & supplies, and drugs. On January 1, Region V had only 5% of its total inventory scheduled for sale in January. On a commodity basis, 10% of the industrial-machinery inventory, 5% of the hardware inventory, and 5% of the materials & supplies inventory are scheduled for sale in January. On January 1, no major drug offerings were scheduled for the month of January.

(3) A sharp increase in the disposal-rate on offerings. During the Fourth Operational Program, covering the October-December period, only 27% of the property offered for sale by Region V was sold.

(4) Establishes a disposal-target of $75 million for Region V for the January-March period: $23 million for January, $26 million for February, and $26 million for March.

(5) Places greater emphasis on commercial sales of machine tools. Region V's machine-tool sales in both November and December fell below $1 million as contrasted to average monthly sales of more than $3 million in the June-October period.

(6) Calls for the complete disposal of aircraft and electronic inventories by December 31, 1947. By this date, Region V's aircraft inventory had been reduced to $35,000 and its electronics inventory to $2 million.

(7) A reduction in the backlog of undelivered orders. On January 2, the region had 458 orders, excluding JANNAT, awaiting delivery. This amounts to a backlog of slightly less than 2 weeks' shipments at the recent rate of shipment. The region does not have many JANNAT orders awaiting shipment, except at the Studebaker plant where many small orders are accumulating for shipment as a carload lot.

(8) The elimination of the customer-claims backlog. In Region V, as in most other regions, the ratio of claims received to gross sales has increased over the last year. However, in recent months Region V has received fewer claims, relative to its sales, than have most other regions. Also during the past year Region V has reduced its backlog of unsettled claims by 60%.

Outlook for Region V

Metalworking equipment and industrial machinery still constitute 65% of Region V's total IBM inventory. No important changes have occurred in the market for this machinery in the last month. Metal manufacturers in the Chicago area, especially farm implement makers, are still buying large quantities of new machinery. The demand for heavy electrical equipment, both in this country and abroad, also continues at record levels--electrical equipment comprises Region V's third largest sales section. There is still a market for most general-purpose machine tools since private manufacturers' sales of general-purpose tools have increased as WAA's offerings of such tools have declined in recent months. However, further reductions in WAA's prices will probably be necessary to attract this potential market. It is anticipated that private manufacturers will raise prices on new machine-tools by 10% within the next several months, but the favorable effect of this action on WAA's sales is likely to be nullified by one of the most active advertising campaigns ever undertaken by private industry to sell new machine tools.

An anticipated heavy demand for iron and steel scrap in the next several months should be favorable to the scrapping of special-purpose and over-age machinery. Unlimited competition among foundries for scant supplies has sent cast-iron prices on one of the sharpest up-swings in the industry's history. A buyer's strike depressed the price on steel scrap by 7% in November and December, but to do this mills had to draw upon their inventories for current scrap needs. It is anticipated that the price on steel scrap will

rise in the next month or two when mills seek to rebuild their inventories. WAA has again been criticized in Congress for not scrapping larger quantities of obsolete and over-age machinery, and Congress will reportedly consider legislation at its current session to force WAA into speedier action on such scrapping.

A good market for non-ferrous metals should prevail, at least, for 6 more months. A shortage of steel has led many manufacturers to use aluminum and various non-ferrous alloys. The European-aid program will also stimulate the demand for these metals. Moreover, if industrial demand tapers off, government stockpiling of these metals, to be used in the event of national emergency, will probably increase and thus will maintain the over-all demand for these metals. In the last 3 to 6 months only slight progress has been made in building these stockpiles in order to avoid increasing the shortage of these metals in the private economy.

Region V has $19 million of hardware and related products in its IBM inventory. Farm equipment, hardware supplies, and containers comprise $12 million of this total. Early action to liquidate these inventories seems advisable. Private firms producing these products are still enjoying a record volume of business and hence offer less competition to the sale of surplus commodities than they will in coming months.

Sales of textiles and apparel have produced a larger share of total regional income in the past 3 months than have the sales of any other major class of commodities. The outlook for the sale of Region V's $6 million remaining inventory of textiles and apparel is good. Private industry producing these products is expected to increase its prices again in the next several months without materially lessening demand. However, such price increases on new merchandise should make surplus textiles and apparel, at existing prices, even more attractive buys than at present.

A shortage of funds, rather than a lack of demand, has limited foreign purchases in the United States in the last 6 months. However, the Washington WAA office has taken steps to eliminate this shortage of funds insofar as the purchase of surplus property is concerned. WAA has extended $67 million credit to Netherlands, Norway, Finland, Philippines, Austria, and Haiti to purchase surplus goods in this country. Region V's potential share of this market, estimated on the basis of the regional share of the national WAA inventory, is $10 million sales (at selling prices) or $150 million (at acquisition cost). The magnitude of this potential market is evident from the fact that Region V's total sales to all buyers in the last 9 months have approximated only $150 million.

rise in the next month or two when mills seek to rebuild their inventories. WAA has again been criticized in Congress for not scrapping larger quantities of obsolete and over-age machinery, and Congress will reportedly consider legislation at its current session to force WAA into speedier action on such scrapping.

A good market for non-ferrous metals should prevail, at least, for 6 more months. A shortage of steel has led many manufacturers to use aluminum and various non-ferrous alloys. The European-aid program will also stimulate the demand for these metals. Moreover, if industrial demand tapers off, government stockpiling of these metals, to be used in the event of national emergency, will probably increase and thus will maintain the over-all demand for these metals. In the last 3 to 6 months only slight progress has been made in building these stockpiles in order to avoid increasing the shortage of these metals in the private economy.

Region V has $19 million of hardware and related products in its IBM inventory. Farm equipment, hardware supplies, and containers comprise $12 million of this total. Early action to liquidate these inventories seems advisable. Private firms producing these products are still enjoying a record volume of business and hence offer less competition to the sale of surplus commodities than they will in coming months.

Sales of textiles and apparel have produced a larger share of total regional income in the past 3 months than have the sales of any other major class of commodities. The outlook for the sale of Region V's $6 million remaining inventory of textiles and apparel is good. Private industry producing these products is expected to increase its prices again in the next several months without materially lessening demand. However, such price increases on new merchandise should make surplus textiles and apparel, at existing prices, even more attractive buys than at present.

A shortage of funds, rather than a lack of demand, has limited foreign purchases in the United States in the last 6 months. However, the Washington WAA office has taken steps to eliminate this shortage of funds insofar as the purchase of surplus property is concerned. WAA has extended $67 million credit to Netherlands, Norway, Finland, Philippines, Austria, and Haiti to purchase surplus goods in this country. Region V's potential share of this market, estimated on the basis of the regional share of the national WAA inventory, is $10 million sales (at selling prices) or $150 million (at acquisition cost). The magnitude of this potential market is evident from the fact that Region V's total sales to all buyers in the last 9 months have approximated only $150 million.